

CITY OF FARLEY
INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT
ON APPLYING AGREED UPON PROCEDURES

FOR THE PERIOD
JULY 1, 2012 THROUGH JUNE 30, 2013

**CITY OF FARLEY
FARLEY, IOWA**

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**CITY OF FARLEY
FARLEY, IOWA**

OFFICIALS

Name -----	Title -----	Term Expires -----
Jeff Simon	Mayor	December 2013
Bill Einwalter	Council Member	December 2013
Joyce Jarding	Council Member	December 2013
David Kluesner	Council Member	December 2015
Jason Norton	Council Member	December 2015
Jay Hefel	Council Member	December 2015
Danielle Hartke	Clerk/Treasurer	Indefinite
Roberts, Stevens, Prendergast, & Guthrie, PLLC	Attorney	Indefinite

O'CONNOR, BROOKS & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

W.H. LEGLAR, CPA
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M.A. KUEPERS, CPA
J.W. HANNAN, CPA
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J.L. WOOLF, CPA

INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT

To the Honorable Mayor and
Members of the City Council

We have performed an examination of the City of Farley pursuant to Chapter 11.6 of the Code of Iowa. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Farley for the period July 1, 2012 through June 30, 2013. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed security bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's (CFC) recommended uniform chart of accounts and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2013 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.

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8. We reviewed compliance with Chapters 12C.2, 12B, 10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We reviewed and tested selected receipts for accurate accounting and consistency with the CFC recommended chart of accounts.
13. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the CFC recommended chart of accounts and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the operations of the City of Farley, the objective of which is the expression of opinions on financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Farley, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Farley and other parties to whom the City of Farley may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Farley during the course of our examination. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

O'CONNOR, BROOKS & CO., P.C.

O'Connor, Brooks & Co., P.C.

Dubuque, Iowa
January 31, 2014

CITY OF FARLEY

DETAILED RECOMMENDATIONS

For the Period July 1, 2012 through June 30, 2013

- A. Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. It was noted that two employees perform most duties over the areas of cash, receipts, disbursements, payroll, utility billing, and financial reporting.

Recommendation - We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

- B. Writing and Holding Checks - We noted two checks listed as outstanding at June 30, 2013 were being held by the City.

Recommendation - The City should avoid writing and holding checks.

- C. Annual Financial Report - Cash for the General Fund was understated by \$33,560, and the Road Use Tax Fund was overstated by \$33,560, compared to the Annual Financial Report. The funds on the balance sheet and Annual Financial Report should match each other.

Recommendation - We recommend that the City contact the State Auditor's office to help resolve this issue. The City Clerk subsequently filed a corrected report.

- D. Debt Proceeds - Net debt proceeds from refunding debt were reported as income rather than gross proceeds and debt payments.

Recommendation - The City should record debt proceeds at the gross amounts in revenues and debt payments in expenses.

- E. Information System - The City does not have written policies over the computer based financial system for:

- Password privacy and confidentiality.
- Requiring backups be performed daily and stored off site.
- Logging off unattended computers.

Recommendation - The City should develop written policies addressing the above items

to improve the City's control over its computer based financial system.

- F. Credit Cards - The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of these credit cards.

Recommendation - The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

- G. Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Kluesner Construction, owner	Asphalt patching	\$ 4,750.00
is the son of board member	Mill, clean, asphalt	\$ 8,933.00
David Kluesner	St. Joseph's curb	\$ 6,065.29
	Street crack sealing	\$ 7,050.00

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

Recommendation - The City should consult legal counsel to determine if the disposition of this matter.

- H. Revenue Bonds - The payment of principal and interest for the water and sewer revenue bonds were made from the Debt Service Fund.

Recommendation - The payments of principal and interest should be made from the water revenue bond sinking account and the Enterprise, Sewer Fund.

- I. Separately Maintained Records - The City maintains separate bank accounts for the Park Board. The financial transactions and the resulting balances were not included in the City's accounting records and were not included in the City's annual budget or monthly financial reports.

Recommendation - Chapter 384.20 of the Code of Iowa states, in part, "A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts

should be included in the City's accounting records and annual budget and should be reported to the Council on a monthly basis.

- J. Tax Increment Financing - The City retains 33% of the tax increment financing receipts for low to moderate income projects. At June 30, 2013, the City has a balance of \$43,751.53 for use on low to moderate income projects. Currently, the City does not have policies and procedures for the use on low to moderate income projects.

Recommendation - The City should establish policies and procedures for the use of low to moderate income projects.